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INFO RUEHBJ/AMEMBASSY BEIJING 0229
RUEHBY/AMEMBASSY CANBERRA 0496
RUEHMO/AMEMBASSY MOSCOW 0083
RUEHNE/AMEMBASSY NEW DELHI 0255
RUEHSA/AMEMBASSY PRETORIA 2276
RUEHRO/AMEMBASSY ROME 0070
RUEHJO/AMCONSUL JOHANNESBURG 0657
RUEATRS/DEPT OF TREASURY WASHDC

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STATE FOR AF/EPS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EFIN](#) [EAIR](#) [EAID](#) [EIND](#) [EINV](#) [SENV](#) [MP](#)
SUBJECT: MAURITIUS - DECEMBER ECONOMIC ROUNDUP

REF: PORT LOUIS 761 (NOTAL)

SUMMARY

11. Topics in the December Economic Roundup include:

- Increase in Commercial Air Traffic to Mauritius
- Foreign Currency Shortage and the Depreciation of the Rupee
- Bank of Mauritius: New Building and Departure of Governor
- Mauritius Obtains USD 30 Million Loan from the World Bank
- Plans to Create a Land-Based Oceanic Industry
- New Urban Center Planned for Highlands

End summary.

INCREASE IN COMMERCIAL AIR TRAFFIC TO MAURITIUS

12. The Government of Mauritius' (GOM's) move towards air access liberalization has enabled more carriers to fly to Mauritius. The recent introduction of South African Comair and French Corsair to the market has increased traffic from South Africa and France. In 2007, air connections between Mauritius and Russia, Italy, India, and Australia will become more frequent and more varied as more carriers offer flights and Air Mauritius expands its routes.

13. The GOM, led by the Ministry of Tourism, Leisure, and External Communication, plans to target the Russian, Italian, Indian, and Australian tourist markets. Russian airline Transaero will begin offering a Moscow-Mauritius route, beginning in March 2007. In the past year, the number of Russians visiting Mauritius has grown more than 30 percent. Discussions are underway for increased Air Mauritius routes, including a Rome-Mauritius flight and more frequent flights between Mauritius and various Australian cities. Speculation continues as to whether Air India will opt to restart its service, which it suspended several years ago, to Mauritius. A 2005 bilateral deal foresaw Air India flying New Delhi-Mauritius-Johannesburg in exchange for Air Mauritius being allowed to fly to New Delhi and on to Beijing, but neither Mauritian nor Indian airlines have taken advantage of the deal. While waiting for Air India's decision, the GOM has considered allowing another private operator to exploit the India-Mauritius route. The more open air access policy complements the Ministry of Tourism's aim to boost tourist arrivals.

FOREIGN CURRENCY SHORTAGE AND THE DEPRECIATION OF THE RUPEE

14. The Mauritian rupee fell nearly 9.5 percent against the dollar in 2006. In December, the Mauritian rupee continued to depreciate and is expected to continue to fall, exacerbating a shortage of foreign currency on the forex market. The Bank of Mauritius (the Central Bank) relied on an assortment of tactics, including menacing statements and arm-twisting, to prevent the market price of the rupee from adjusting downward and to ensure other banks use the exchange rates declared by the Bank of Mauritius as the market rates. As a result, Mauritius saw the development of an unofficial forex market and strong demand for forex by holders of rupees. A "creeping dollarization" led some banks, particularly the foreign ones, to view their rupee deposit base as unstable and thus motivate them to reduce participation in government securities auctions. Analysts have called for action by the Bank of Mauritius in order to restore confidence in the rupee and stop the rupee's slide. On the interest rate front, the Bank announced that on December 18 th Repo rate will replace the Lombard rate, which was introduced in 1999, allowing Mauritius to align itself with developed countries.

BAN OF MAURITIUS: NEW BUILDING AND DEPARTURE OF GOVERNOR

15. Prime Minister Navin Ramgoolam inaugurated the new Bank of Mauritius building on December 18. The 22-level "intelligent" structure towers 98 meters high and incorporates a sophisticated integrated security system. The building's total cost will reach Rs 1.89 billion (approx. 59 million USD). Mauritian firm General Construction paired with British company Group Five to complete the construction, which was designed by Mauritian firm Lampotang and U.S. firm Loebel Schlossman Hackl. In 2003, Prime Minister

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Ramgoolam, who was then leader of the opposition, contested the allocation of the construction contract. He alleged the Bank had favored General Construction to the detriment of India-based Larsen and Toubro.

16. The Governor of the Bank of Mauritius, Ramesh Basant Roi, announced to his colleagues December 16 at the annual Bank dinner that he will leave his post at the end of December 2006, when his contract is due to expire. Roi has not yet confirmed the news, stating he will hold a news conference following the opening of the new building.

MAURITIUS OBTAINS USD 30 MILLION LOAN FROM THE WORLD BANK

17. On December 13, the World Bank Board of Executive Directors approved an International Bank for Reconstruction and Development (IBRD) loan of USD 30 million to support the GOM with the implementation of its reform program. The First Trade and Competitiveness Development Policy Loan (DPL) is the first of three development policy loans. The loan aims to finance 10 percent of the current year's budget deficit and to help diversify Mauritius' debt portfolio, stabilize the economy, raise competitiveness and growth prospects, and broaden participation. It was prepared jointly with Mauritius' other key donors, including the European Union, France, and the African Development Bank. The loan is a fixed spread loan with repayment over 15 years and includes a five-year grace period.

PLANS TO CREATE A LAND-BASED OCEANIC INDUSTRY

18. Mauritius aims to establish a land-based oceanic industry, which would consist of the pumping and desalination of deep sea water to be used for commercial purposes. Uses for the deep-sea water include: mineral water, air conditioning, aquaculture, pearl culture, pharmaceutical products, and fitness and health centers. Arjoon Suddhoo, Director of the Mauritius Research Council and initiator of the project, cited the example of Hawaii, which now

exports 1.8 million liters of the desalinated water per day.

¶9. Minister of Finance Rama Sithanen, who believes the industry could become a pillar of the Mauritian economy, proposed the establishment of a consortium of promoters comprised of private and public sector enterprises, including foreign companies. In studies thus far, Indian expertise was used for collecting the samples while an Australian lab conducted the tests. Twelve sites have been identified for pumping the water. Some Rs 200 to Rs 600 (approx. 6 USD to 19 USD) million will be required for the project.

NEW URBAN CENTER PROPOSED FOR HIGHLANDS

¶10. The GOM seeks to transform a site of 400-500 acres of state-owned land located in the central part of the island near Highlands into a modern urban growth center and knowledge hub. The project would include the construction of a new parliament, government offices, commercial and residential properties, and learning institutions. The GOM has requested "Expressions of Interest" from local and international firms, with a deadline of March 30, 2007. The total project cost is estimated at USD 5 billion. (Note: Tender notice was transmitted in reftel. End note.)

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